Press Release

Anadrone Systems Private Limited

February 15, 2024

Rating

Facility	Amount (Rs. Crore)	Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities – Cash Credit	11.50	IVR BBB-; Stable (IVR Triple B Minus with Stable outlook)	Reaffirmed	Simple
Long Term Bank Facilities – Cash Credit	23.00 *	IVR BBB-; Stable (IVR Triple B Minus with Stable outlook)	Assigned	Simple
Long Term Bank Facilities – Bank Guarantee	30.00	IVR BBB-; Stable (IVR Triple B Minus with Stable outlook)	Reaffirmed	Simple
Long Term Bank Facilities – Bank Guarantee	10.00 *	IVR BBB-; Stable (IVR Triple B Minus with Stable outlook)	Assigned	Simple
Short Term Bank Facilities – Bank Guarantee	55.50 (reduced from Rs.66.50 crore and including proposed limit of Rs.10.50 crore)	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	**130.00 (Rupees One hundred and thirty crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The assignment/reaffirmation of rating assigned to the bank facilities of Anadrone Systems Private Limited (ASPL) derive strength from its experienced promoter and qualified management team, reputed clientele coupled with healthy order book position providing short term revenue visibility. Also, the ratings positively note the healthy capital structure and sound debt protection metrics of the company in FY2023. However, these rating strengths remain constrained by moderation in financial performance in FY2023; albeit significant improvement witnessed during 9MFY2024, exposure to customer concentration and the need for constant upgradation of technology, tender driven nature of its business with intense competition and exposure to foreign currency fluctuation risk.

Key Rating Sensitivities:

Upward factors

- Significant growth in the scale of business with improvement in profitability metrics thereby leading to improvement in cash accruals and debt protection metrics on a sustained basis
- Sustenance of the capital structure

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis.
- Moderation in the capital structure with overall gearing deteriorated over 1x
- Stretch in average receivables leading to weakening of liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced and qualified promoters and management team

The founder promoter of the company, Mr. Anant Arun Bhalotia is an MBA by qualification and has an experience of over a decade in the manufacturing of arial target drones for the defence sector. He is also the Managing Director of the company and is actively involved in managing the day-to-day operations of the company along with the support of other Directors – Mrs. Sunita Bhalotia (mother of Ms. Anant Bhalotia) and Mrs. Shriya Bhalotia (wife of Mr. Anant Bhalotia). ASPL's long presence in the defence sector has enabled it to build strong relationships with its customers and suppliers. The directors are supported by a team of experienced and qualified professionals.

Reputed clientele, albeit customer concentration

The Ministry of Defence is ASPL's sole customer. The company bids for defence projects floated by the ministry on a fixed-contract basis. Though the company is exposed to client concentration risk, yet association with government department reduces counter party credit risk and ensures regular inflow of orders. However, any changes in the procurement policy of the defence forces or a significant cutback in defence spending may adversely impact the company's revenue and order book position.

Strong financial risk profile marked by healthy capital structure and sound debt protection metrics

The capital structure of the company remained conservative over the past three fiscals with low reliance on external debts. The overall gearing improved and remained comfortable at

0.09x as on March 31, 2023, as against 0.24x as on March 31, 2022. Further with reduction in overall debt levels and consequent reduction in interest cost in FY2023, debt coverage indicators also improved with ICR of 14.81x (6.01x in FY2022) in FY23, total debt to GCA of 0.39x (0.56x in as on March 31,2022) and total debt to EBITDA of 0.29x (0.39x March 31,2022) as on March 31,2023. Total indebtedness of the company as reflected by TOL/TNW stood comfortable at 0.87x as on March 31, 2023 (1.06x as on March 31, 2022).

Healthy order book position providing short term revenue visibility

ASPL's order book position as of December 01, 2023, stood at Rs.392.68 crore which provides revenue visibility of 5.32x of operating revenue of FY2023. The orders are expected to be completed within next 12-24 months. ASPL bagging the orders wherein it is technically qualified shall be a key rating monitorable as it drives the revenue towards projected levels.

Favourable industry outlook

The Indian drone industry has been flying high and is expected to move even further in the coming years. The Indian government has set a target of achieving a $1 billion drone industry by 2025 and has taken various measures to support the industry. Some of them include creating a drone task force and launching a dedicated portal for drone operations. Drones are being increasingly adopted in sectors such as agriculture, defence, and logistics. The defence and security sectors are significant adopters of drone technology for surveillance, reconnaissance, and target acquisition. Government has allocated Rs.120 crores for a PLI scheme to incentivize drone manufacturing in India. Under the PLI scheme for the drone industry, the government will provide incentives to manufacturers based on a fixed percentage of the value addition they make.

Key Rating Weaknesses:

Moderation in financial performance in FY2023; albeit significant improvement during 9MFY2024

Total operating income (TOI) witnessed a moderation from Rs.209.83 crore in FY2022 to Rs.73.82 crore in FY2023 due to slowdown in demand and lower execution of orders by the company. Despite the decrease in top line, EBITDA margin improved significantly from 12.90% in FY2022 to 22.47% in FY2023 on account of decrease in raw material cost and other operational overheads. Also, the amount of closing inventory increased substantially from Rs.6.72 crore as on March 31, 2022, to Rs.24.92 crore as on March 31, 2023, which added to the increase in operating margin in FY2023. The increase in closing inventory as on March

31, 2023, is due to stocking of raw materials by the company in view of crystallisation of its upcoming orders and delays in dispatch of finished goods. Also, the delivery of products by the company depends on the milestone dates set by the Ministry of Defence. Since the milestone dates were not due by March 31, 2023, it resulted in increase in inventory levels as on the account closing date. With increase in operating margin, PAT margin also increased significantly from 8.59% in FY2022 to 13.77% in FY2023. However, due to decrease in absolute profits, GCA moderated from Rs.19.11 crore in FY2022 to Rs.12.49 crore in FY2023. TOI witnessed a significant increase during 9MFY2024 to Rs.201.15 crore as against Rs.31.43 crore during 9MFY2023 driven by higher execution of orders. Consequently, ASPL achieved a PBT of Rs.35.33 crore during 9MFY2024 as against a PBT of Rs.4.61 crore during 9MFY2023. Given the current scale of operations and unexecuted order book of Rs.392.68 crore as on December 01, 2023, the operating income and overall profitability is likely to improve going forward. However, the achievability of the same remains critical from rating perspective.

Need for constant upgradation of technology

ASPL need to upgrade/modify its products continuously as per changing customer needs which requires continuous spending on research and development.

Tender driven nature of business coupled with intense competition

ASPL operates in a highly regulated industry with MOD being its only client. Furthermore, the orders are tender-based, and the revenue of the company is dependent on its ability to bid successfully for these tenders. Thus, there is tendency of revenue profile to remain fluctuating depending upon the orders bagged. Nevertheless, with promoters' long standing experience and moderate orderbook in hand the company's financial profile in near to medium term is likely to remain buoyant. However, the defence sector is intensely competitive, characterised by the presence of large players. Besides, a tender-based contract awarding system tends to keep the operating margins under check.

Exposure to foreign exchange fluctuation risk

ASPL is heavily dependent on imports for a major portion of its raw material requirements. Further, the company also imports various services to meet the specific requirements of its customer. Hence, the profitability of the company remains exposed to risk arising out of movements in foreign currencies. Nevertheless, ASPL has earned a forex gain of Rs.2.68 crore in FY23 (Rs.1.29 crore in FY2022). ASPL does not implement any prudent hedging policy. The unhedged foreign currency exposure stood at Rs.52.34 crore as on December 31, 2023.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Policy of default recognition

Criteria – Complexity Level of Rated Instruments/Facilities

Liquidity: Strong

The liquidity profile of the company is expected to remain strong in the near to medium term on the back of its expected sufficient cash accruals vis-à-vis its nil long-term debt repayment obligations and healthy gearing headroom underpinned by its comfortable leverage ratios. ASPL earned healthy gross cash accruals of Rs.12.49 crore in FY2023. The overall gearing remained comfortable at 0.09x as on March 31, 2023. The current ratio stood comfortable at 1.32x as on March 31, 2023. Moreover, the average working capital utilisation remained low during the last twelve months ended September 30, 2023, indicating a comfortable liquidity position of the company.

About the Company

Anadrone Systems Private Limited (ASPL) was incorporated in June 2004 as Sure Safety Solutions Pvt. Ltd in Mumbai, Maharashtra. Later rechristened as ASPL during January 2019. The company is engaged in manufacturing and servicing of arial target drones for the defence industry. ASPL has been in technical collaboration with UK based defence specialist QinetiQ Target Systems Ltd from the year 2008 and had become a trusted supplier of modernized, supersonic defence system equipment. ASPL runs its business on an order-based model.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	209.83	73.82
Total Income	212.41	74.35
EBITDA	27.07	16.59
PAT	18.25	10.24
Total Debt	10.61	4.87

Tangible Net worth	44.39	54.74
EBITDA Margin (%)	12.90	22.47
PAT Margin (%)	8.59	13.77
Overall Gearing Ratio (x)	0.24	0.09

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA:

CRISIL has continued to classify the rating of ASPL under "ISSUER NOT COOPERATING" vide its Press Release dated May 13, 2022 due to non-availability of requisite information to carry out a review.

India Ratings has continued to classify the rating of ASPL under "ISSUER NOT COOPERATING" vide its Press Release dated October 26, 2023 due to non-availability of requisite information to carry out a review.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1	Cash Credit	Long Term	11.50	IVR BBB- /Stable	IVR BBB- /Stable (December 20, 2022)	-	-
2	Cash Credit	Long Term	23.00	IVR BBB- /Stable	-	-	-
3	Bank Guarantee	Long Term	30.00	IVR BBB- /Stable	IVR BBB- /Stable (December 20, 2022)	-	-
4	Bank Guarantee	Long Term	10.00	IVR BBB- /Stable	-	-	-
5	Bank Guarantee	Short Term	55.50 (reduced from Rs.66.50 crore and including proposed limit of Rs.10.50 crore)	IVR A3	IVR A3 (December 20, 2022)	-	-

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	34.50 (enhanced from Rs.11.50 crore)	IVR BBB-/ Stable
Bank Guarantee	-	-	-	40.00 (enhanced from Rs.30.00 crore)	IVR BBB-/ Stable

Bank Guarantee	-	-	-	55.50 (reduced from Rs.66.50 crore and including proposed limit of Rs.10.50 crore)	IVR A3

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-anadrone-feb24.pdf

Annexure 3: List of companies/Entities considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.